



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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JULY 17, 1980

The Honorable Patrick J. Leahy
Chairman, Subcommittee on District
of Columbia
Committee on Appropriations
United States Senate



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Dear Mr. Chairman:

Subject: [Financial Audit of the District of
Columbia Office on Aging] (GGD-80-70)

As you requested, we have reviewed the financial operations of the District of Columbia's Office on Aging, particularly programs operated by nonprofit community-based organizations which receive Office funds to provide services, such as nutritional meals, to the District's senior citizens.

For fiscal year 1978, the Office received about \$2.7 million in Federal grants and about \$600,000 in District appropriated funds to operate programs for the District's elderly.

Our review of selected financial transactions and the results of financial audits conducted by certified public accountants showed that the nonprofit organizations (subgrantees) generally accounted for funds properly. While we did not find any fraudulent use of funds, about \$8,600, including about \$5,300 associated with Office programs, was reportedly embezzled at one of the subgrantees before our review began. The Office on Aging has neither closely monitored subgrantee operations nor regularly conducted onsite evaluations. We found instances where expenditures were improper or questionable; participants' contributions were not properly accounted for, safeguarded, and deposited; expenditures were not adequately supported; and contract records were incomplete. Office and subgrantee officials assured us that these weaknesses would be corrected.

The Older Americans Act of 1965, as amended (42 U.S.C. 3001 et seq.) authorizes Federal grants to States (with the District of Columbia included as a State) to operate programs to assist the elderly. The Administration on Aging in the Department of Health and Human Services provides these grants

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to States to operate programs that meet the act's requirements. The Office on Aging serves as the sole State and area agency to receive and administer Federal grant funds authorized by the act for the District's senior citizens.

The Office subgrants funds to organizations which provide direct services to the elderly. In fiscal year 1978, 28 subgrantee organizations operated about 85 sites which provided various services to over 3,000 senior citizens each day. Each organization is required to maintain financial records to account for its use of funds for hot meals and other nutritional services, transportation, recreation, nursing visits, home repair, and legal services.

SCOPE OF REVIEW

Our review was conducted at Office headquarters and eight selected subgrantees, which received about 63 percent of the funds received by the Office for fiscal year 1978. These were among the largest subgrantees and together provided all types of services to the elderly authorized under the act. We examined these organizations' financial records, reports, and other documents and tested their accounting systems and internal controls over the funds.

We visited the subgrantees' certified public accountants and reviewed and discussed their working papers, audit reports, and management letters relating to the subgrantees' activities. We interviewed Office representatives and subgrantee officials and observed the operation of selected subgrantee nutrition sites.

MORE EFFECTIVE MONITORING AND EVALUATION OF SUBGRANTEE OPERATIONS NEEDED

The Office on Aging should more effectively monitor subgrantees' financial activities involving Federal grant and District appropriated funds. Periodic onsite evaluations, as required by Federal regulations, are needed to ensure, among other things, that program objectives are achieved and expenditures are proper.

The Office neither closely monitored subgrantee operations nor regularly conducted onsite subgrantee evaluations. During our examination of selected subgrantees' records, we found

various financial control weaknesses and certain questionable expenditures which the Office could have detected if it had made regular onsite evaluations. The following situations, which should be corrected to deter future improper use of funds, existed at one or more of the subgrantees we visited:

- Expenditures were improper or questionable.
- Participants' contributions were not properly accounted for, safeguarded, and deposited.
- Expenditures were not adequately supported.
- Contract records were incomplete.
- One property management system was not adequate.

Improper or questionable expenditures

Our review showed that several subgrantees made improper or questionable expenditures. Prior to our review at one subgrantee, employees reportedly had embezzled monies, but the subgrantee had taken corrective actions to prevent a recurrence.

One subgrantee charged consultant and transportation expenditures to the Office on Aging program even though the expenditures did not benefit the program. A consultant for the subgrantee, hired for activities not funded by the Office's program, incurred expenses of \$690, about \$193 of which the subgrantee improperly charged as an expense against the Office's program. This subgrantee also incurred transportation costs of \$210 in taking a group of children to the circus and improperly charged about \$74 of this expense to the Office's program.

Federal law states that, beginning with fiscal year 1979, participants' contributions for meals served under the nutrition program will be used to increase the number of meals served by the project. One subgrantee, however, used these contributions in fiscal year 1979 to purchase draperies valued at about \$600 for its administrative offices.

In another instance, the Office awarded a subgrantee a planning grant which stipulated that personnel hired to perform tasks under the grant could not be paid with Office funds beyond September 30, 1978. Although about \$3,000 was paid to

employees after that date, the Office has taken no action to recover these funds.

The Office provided funds to another subgrantee for use in assisting the elderly to pay for home repairs. Office records indicated that the subgrantee used about \$800 to pay a property tax lien on an elderly person's home to avoid its possible loss. The District had placed a lien on the property to recover the cost of removing retaining wall bricks. Although the Office's Executive Director approved the subgrantee's request to use the funds for this purpose, he stipulated that efforts should be made to seek full restitution. At the time of our review, no funds had been recovered and the subgrantee had made no effort to obtain restitution.

Prior to our review, two former employees at one subgrantee reportedly embezzled \$8,654, of which \$5,304 was determined to be associated with Office-funded programs (\$3,420 in participants' contributions from the nutrition program and a check for \$1,884 written against the Office fund account). The controls over these funds were weak because the subgrantee

- maintained inadequate check signing procedures;
- kept signed, blank checks on hand for emergencies;
and
- allowed only one or two employees to handle all financial records.

One employee reportedly embezzled \$1,673, which his family subsequently repaid. The balance, \$6,981, reportedly embezzled by another employee, has yet to be repaid. The employee who embezzled these funds signed a 90-day promissory note; however, she cannot be located, and the note is still outstanding. On the recommendation of its certified public accountant, the subgrantee transferred the \$6,981 loss from the nutrition program account to its House account--an account that absorbs surpluses and deficits from all programs.

The subgrantee has instituted new control procedures to prevent embezzlements.

- The Associate Director for Administration and Management reviews checks and supporting documents.
- Either the Associate Director or the Executive Director signs checks under \$500.

- The Executive Director alone signs checks for amounts between \$500 and \$1,500.
- The Executive Director and either the Board of Director's President or Treasurer signs checks over \$1,500.
- The subgrantee no longer keeps signed, blank checks in the office for emergencies and has divided responsibilities for handling financial records to the extent possible.

Improved controls over participants' contributions needed

Subgrantees need to strengthen controls over the money participants contribute for meals to assure that all contributions received are properly accounted for, safeguarded, and deposited. Also, these controls should require that at least two persons count the contributions received. The 13 nutrition sites we visited had no uniform controls, even when operated by the same subgrantee.

Three nutrition sites that one subgrantee operated demonstrated the need to strengthen internal controls over participants' contributions. Nutrition site managers said that the pickup frequency of contributions varied from 2 to 5 weeks. When an employee picked up the locked boxes and returned them to the accounting office, someone in the accounting office emptied the contents into a bag, uncounted, and put the bag into an office safe. According to an accounting office official, employees generally counted and deposited these contributions monthly. However, our review of deposit slips showed that occasionally 2 months passed before anyone counted and deposited the money.

To minimize unexplained fund shortages, the subgrantee should establish controls to count the money and make deposits promptly. For example, when we compared the subgrantee's count sheet for contributions received during the period November 8, 1977, through January 24, 1978, with the amount deposited on January 27, 1978, we noted a difference of \$118.40 (\$2,077.21 counted versus \$1,958.81 deposited). Subgrantee officials were unable to explain this difference between the count and the deposit.

Since our visit, the subgrantee has instituted new procedures whereby contributions at each site are picked up at least once a week, counted by two people when brought into the accounting office, and deposited weekly.

Expenditures should be supported

One subgrantee charged payments to a part-time accountant as consulting expenses. Although the subgrantee must obtain the Board of Director's approval before a consultant can be hired, we found no record of this approval or any documentation authorizing or justifying the payments. The only support for payment was a memorandum from the part-time accountant to the Executive Director showing the dates and hours he worked.

One subgrantee's financial records showed that the subgrantee allocated consultant fees to all programs it operated rather than to the program or programs which benefited from the consultant's services. This subgrantee lacked documentation authorizing and justifying the use of some consultants. Support for payment of consultant fees generally consisted of a memorandum from the consultant stating the hours or days worked and the rate charged. The subgrantee did not use time sheets to support the hours or days worked, and we were unable to verify the hourly or daily rate.

Two subgrantees lacked sufficient supporting documentation for petty cash expenditures. One subgrantee set up a petty cash fund, but receipts were not available showing how the money was spent. Supporting documentation for petty cash expenditures at another subgrantee often did not equal the amount that was reimbursed.

Adequate contract records need to be maintained

All five subgrantees that provided nutritional services to senior citizens (one hot meal a day, 5 or more days a week) had little or no documentation to support the catering contracts they entered into in fiscal year 1978. In most cases, the subgrantees could not provide such documents as requests for bids, proposals received, evaluation proposal procedures, and contract award justifications.

The business affairs officer at one subgrantee said that the organization's catering contract was a continuing contract and, as such, bids were not requested. He said the contract

was awarded on the basis of the quality of meals provided by the caterer rather than on cost. Although another subgrantee could provide copies of requests for bids and offers received, it could not explain why the award was made to other than the lowest bidder. Subgrantee officials stated that they had the same caterer for several years and were very satisfied with the quality of its service.

We believe that the subgrantees should maintain adequate records and documentation when entering into any contract to ensure that the records set forth the consideration and rationale which resulted in the price. Contract files should contain requests for bids, offers received, and justification for awarding contracts to other than the lowest bidder.

Adequate property management system needed

One subgrantee did not maintain an adequate property management system for equipment and furniture purchased with Office funds. The subgrantee's list of equipment on hand showed the type of equipment but did not show, among other things, purchase date and cost as required by Federal regulations. In addition, equipment (including five calculators) and furniture that were purchased near the end of fiscal year 1978, for about \$6,000, were charged to "other costs" rather than to equipment in the subgrantee's accounting records. The inaccurate recording of these transactions will prevent reconciliation of the formal accounting records with subsidiary property control records.

AUDIT REPORTS, MANAGEMENT LETTERS,
AND FISCAL REPORTS SHOULD BE BETTER USED

The Office on Aging has not established a systematic procedure for receiving and using certified public accountant audit reports and management letters. While the Office had most public accountant reports on file, it did not maintain a list or log of reports, and it did not require that subgrantees submit public accountants' management letters describing financial deficiencies. The Office on Aging Executive Director stated that no systematic procedures exist to review and follow up on audit report findings. In addition, some subgrantees were late in submitting fiscal reports of project expenditures they incurred, and the Office accepted whatever figures subgrantees submitted for reimbursement.

Federal regulations require that financial management systems and internal control procedures established by the subgrantees to meet grant terms be audited to determine their effectiveness. These audits are to be conducted on a continuing basis or at scheduled intervals, usually once a year, but at least every 2 years. In addition, management letters should be prepared to report financial control deficiencies and corrective actions needed.

The subgrantees included in our review each had an audit performed by an independent auditor for the fiscal year we reviewed. For five of the eight subgrantees reviewed, the auditors issued unqualified opinions on the subgrantees' financial positions. One public accountant issued a qualified opinion questioning the ability of one subgrantee to operate as a going concern. Another public accountant issued a qualified opinion as to the collectibility of receivables under reimbursable grants. As of February 1, 1980, the public accounting firm for the remaining subgrantee had not yet issued a final report.

Four of the audited subgrantees also received management letters describing deficiencies ranging from minor procedural problems to major internal control weaknesses. The following are illustrative of the recommendations made by the public accounting firms in their management letters to the subgrantees:

- Reconcile bank accounts and general ledger accounts monthly.
- Develop an office procedures manual detailing employees' duties and responsibilities.
- Prepare an accounts payable listing.
- Improve payroll review procedures.
- Prepare an accounting manual.

The Office has not established adequate procedures to ensure that (1) audit reports and management letters are received, (2) financial information and findings are analyzed, and (3) financial control deficiencies are corrected by the subgrantee. These public accountant reports and management letters could provide the Office with an effective method of monitoring subgrantee financial operations and identifying financial problems.

The Office requires that subgrantees submit monthly reports of project expenditures to obtain reimbursements. During the period covered by our review, the Office required these reports quarterly, but some subgrantees were late in submitting them. In one instance a subgrantee had incurred expenses but had not submitted any reports to obtain reimbursement for these expenditures. Also, the Office's Executive Director and other officials stated that they did not require supporting documentation for unusual expenditures. The Office accepted whatever figures subgrantees submitted, making only an arithmetical check of the fiscal reports.

The Office on Aging needs to (1) ensure that subgrantees submit timely reports, (2) review reports for any unusual amounts, and (3) verify, if necessary, certain expenditures for possible improprieties.

CONCLUSIONS

The Office on Aging has not adequately monitored subgrantees' operations to ensure that they are in compliance with grant provisions. More effective monitoring through regular site visits and evaluations and verification of unusual expenditures would help deter improper use of funds and ensure that weaknesses identified earlier are corrected. Also, the Office is not effectively using public accountant audit reports and management letters and subgrantee fiscal reports to monitor and evaluate subgrantees' activities and fund uses.

The Office's Executive Director agreed that more frequent visits are needed and that unusual expenditures should be verified. He stated that lack of resources has greatly hindered the Office from adequately monitoring and performing onsite evaluation of subgrantee operations.

RECOMMENDATIONS

We recommend that the Executive Director, Office on Aging:

- Establish procedures for monitoring the activities and records of subgrantees to ensure that grant funds are spent for intended purposes.
- Establish procedures to require timely receipt and analysis of public accountant audit reports and management letters and subgrantee fiscal reports.

- Establish procedures to assure that needed corrective actions are taken on reported financial deficiencies before additional funds are provided.
- Seek reimbursement, as appropriate and to the extent practicable, for unauthorized uses of program funds.

AGENCY COMMENTS

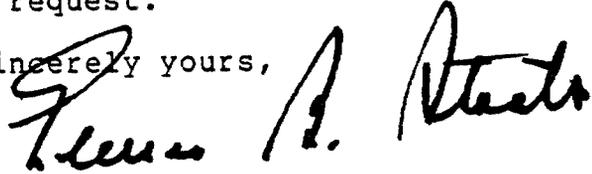
In commenting on this report in June 1980, the Executive Director, Office on Aging, stated that he agreed with the report's findings and recommendations. In addition, he stated that improvements in the Office's management and control procedures have already been completed. Specifically, the Executive Director said that:

- The Office has improved its grant application forms and procedures.
- The Office now monitors subgrantees onsite at least three times each year and the results are used as part of the grant reapplication review process.
- The Office's fiscal year 1981 budget request provides for additional staff whose primary functions will be in the areas of monitoring and assessments.
- The Office has issued audit guidelines for use by subgrantees and their independent auditors in planning and conducting the required audits. The guidelines are based on our "Standards For Audit of Governmental Organizations, Programs, Activities, and Functions." The Executive Director stated that our audit was instrumental in getting the Office's subgrantees to accept the audit guidelines for their fiscal year 1979 financial audits.

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As arranged with your Subcommittee, we are sending copies of this report to the Subcommittee on District of Columbia, House Committee on Appropriations; other interested congressional committees; the Mayor of the District of Columbia; and the Council of the District of Columbia. Copies will also be available to other parties upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Glenn A. Steinhilber". The signature is written in a cursive style with a large initial "G".

Comptroller General
of the United States